

AUSTRALIAN ZIRCON NL
ACN 063 389 079

NOTICE OF GENERAL MEETING

AND

EXPLANATORY MEMORANDUM

Important Information

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisor without delay.

If you wish to discuss any aspect of this document with the Company please contact
Mr Graham Seppelt on telephone 0419 035 297

AUSTRALIAN ZIRCON NL
ACN 063 389 079

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of the members of Australian Zircon NL will be held at 52 Ord Street, West Perth at 11am (Perth time) on Thursday 13 October 2016 to consider the following business and, to consider and, if thought fit, to pass the following Resolutions:

AGENDA

1. Special Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

“That, subject to:

- (a) the due passage of Resolutions 2 – 7 (inclusive) hereof;*
- (b) Completion occurring under the Share Sale Agreement;*
- (c) the Board resolving to make an Existing Application; and*
- (d) the Forfeiture being completed;*

the share capital of the Company be reduced pursuant to Subsection 256C(2) of the Corporations Act from \$110,779,210 comprising 1,474,715,121 Shares to approximately \$2,002,000 comprising approximately 10,010,000 Shares as follows:

- (i) The holdings of the Category 1A Shareholders (being 1,471,434,644 Shares in total) be reduced to approximately 7,000,000 Shares by cancelling 99.5242739% of the Shares held by each Category 1A Shareholder (on the basis that any fractional shareholding that would otherwise result from the cancellation is to be rounded down);*
- (ii) The holdings of the Category 2A Shareholders (being 2,144 Shares in total) be cancelled;*
- (iii) The holdings of the Category 3A Shareholders (being 1,510,000 Shares in total) will not be affected;*
- (iv) The holdings of the Category 4A Shareholders (being 1,768,433 Shares in total) be reduced to 1,500,000 Shares by cancelling all Shares in excess of 10,000 Shares held by each Category 4A Shareholder (being 268,433 Shares in total);*

by cancelling approximately \$108,777,210 of paid up capital that is lost, with effect from the time that the Board makes the reduction which will be not earlier than the expiry of 14 days from the lodgement of a copy of this Resolution with the Australian Securities & Investments Commission in accordance with Subsection 256C(3) of the Corporations Act, and otherwise on the terms and conditions described in the Explanatory Memorandum attached to and forming part of this Notice and that any applicable provisions of the Company's Constitution be amended accordingly."

2. Special Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

"That, subject to:

- (a) the due passage of Resolutions 1 and 3 – 7 (inclusive) hereof;*
- (b) Completion occurring under the Share Sale Agreement;*
- (c) the Board resolving to make a Proposed Application; and*
- (d) the Forfeiture being completed;*

the share capital of the Company be reduced pursuant to Subsection 256C(2) of the Corporations Act from \$110,779,210 comprising 1,474,715,121 Shares to approximately \$2,005,000 comprising approximately 10,025,000 Shares as follows:

- (i) The holdings of the Category 1B Shareholders (being 1,225,000 Shares in total) will not be affected;*
- (ii) The holdings of the Category 2B Shareholders (being 4,345,407 Shares in total) be reduced to 3,800,000 Shares by cancelling all shares in excess of 25,000 held by each such Category 2B Shareholder (being 545,407 in total);*
- (iii) The holdings of the Category 3B Shareholders (being 3,165 Shares in total) will be cancelled;*
- (iv) The holdings of the Category 4B Shareholders (being 1,469,141,549 Shares in total) be reduced to approximately 5,000,000 Shares by cancelling 99.6596579% of each of the Shares held by each Category 4B Shareholder (on the basis that any fractional shareholding that would otherwise result from the cancellation is to be rounded down);*

by cancelling \$108,754,210 of paid up capital that is lost, with effect from the time that the Board makes the reduction which will be not earlier than the expiry of 14 days from the lodgement of a copy of this Resolution with the Australian Securities & Investments Commission in accordance with Subsection 256C(3) of the Corporations Act, and otherwise on the terms and conditions described in the

Explanatory Memorandum attached to and forming part of this Notice and that any applicable provisions of the Company's Constitution be amended accordingly."

3. Special Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

"That for the purposes of Subsection 256C(2) of the Corporations Act approval be and is hereby given by those Shareholders, some or all of whose Shares are to be cancelled pursuant to Resolution 1, to the reduction of capital contemplated by Resolution 1 hereof."

4. Special Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

"That for the purposes of Subsection 256C(2) of the Corporations Act approval be and is hereby given by those Shareholders, some or all of whose Shares are to be cancelled pursuant to Resolution 2, to the reduction of capital contemplated by Resolution 2 hereof."

5. Ordinary Resolution – Cancellation of Forfeited Shares

To consider, and if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

"That pursuant to Section 258D of the Corporations Act the existing share capital of the Company be reduced by up to the amount of \$36,815 by cancelling the Forfeited Shares on the basis of a reduction of \$0.005 of paid up capital for each Forfeited Share."

6. Ordinary Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

"That, subject to the due passage of Resolutions 1 – 5 (inclusive) and Resolution 7, approval be and is hereby given for the purpose of item 7 of section 611 of the Corporations Act to the acquisition of the Sale Shares by the Purchasers on the terms and conditions in the Explanatory Memorandum."

7. Special Resolution - Change of Company Type

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

"That, subject to the due passage of Resolutions 1 - 6 hereof and subject to the Partly Paid Shares being either Forfeited or fully paid up, in accordance with

section 162 of the Corporations Act and for all other purposes, approval is given to the Company for the Company to be converted from a public no liability company to a public company limited by shares, on the terms set out in the Explanatory Memorandum.”

8. Special Resolution – Change the name of the Company

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

“That subject to the due passage of Resolution 7 and with effect from the day after the change of company type contemplated by Resolution 7 is effected, the name of the Company be changed to “Bedarra Limited”.”

9. Ordinary Resolution - Approval for the issue of Securities under the Incentive Plan to Jeremy Shervington or his nominee

To consider, and if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

“That, subject to the due passage of Resolutions 1 – 7 (inclusive) and Resolutions 10 and 11, for the purposes of Chapter 2E of the Corporations Act and for all other purposes, Shareholders authorise and approve the issue of Securities under the Incentive Plan by the Company to Jeremy Shervington or his nominee on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion: For the purposes of Section 224 of the Corporations Act the Company will disregard any votes cast by or on behalf of Jeremy Shervington or his Associates.

However, the Company will not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

In accordance with Section 250BD of the Corporations Act, a vote on this Resolution must not be cast by or on behalf of a member of the Key Management Personnel, or a Closely Related Party of such a member.

A vote may be cast by such a person if the vote is not cast on behalf of a person who is excluded from voting on this Resolution, and:

- (a) The person is appointed as proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (b) The person is the Chairman and appointment of the Chairman as proxy does not specify the way the proxy is to vote on the Resolution, but expressly

authorises the Chairman to exercise the proxy even if the resolution is connected with the remuneration of a member of Key Management Personnel.

10. Ordinary Resolution - Approval for the issue of Securities under the Incentive Plan to Johann Jacobs or his nominee

To consider, and if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

“That, subject to the due passage of Resolutions 1 – 7 (inclusive) and Resolutions 9 and 11, for the purposes of Chapter 2E of the Corporations Act and for all other purposes, Shareholders authorise and approve the issue of Securities under the Incentive Plan by the Company to Johann Jacobs or his nominee on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion: For the purposes of Section 224 of the Corporations Act the Company will disregard any votes cast by or on behalf of Johann Jacobs or his Associates.

However, the Company will not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

In accordance with Section 250BD of the Corporations Act, a vote on this Resolution must not be cast by or on behalf of a member of the Key Management Personnel, or a Closely Related Party of such a member.

A vote may be cast by such a person if the vote is not cast on behalf of a person who is excluded from voting on this Resolution, and:

- (a) The person is appointed as proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (b) The person is the Chairman and appointment of the Chairman as proxy does not specify the way the proxy is to vote on the Resolution, but expressly authorises the Chairman to exercise the proxy even if the resolution is connected with the remuneration of a member of Key Management Personnel.

11. Ordinary Resolution - Approval for the issue of Securities under the Incentive Plan to Alan Coulthard or his nominee

To consider, and if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

“That, subject to the due passage of Resolutions 1 – 7 (inclusive) and Resolutions 9 and 10, for the purposes of Chapter 2E of the Corporations Act and for all other purposes, Shareholders authorise and approve the issue of Securities under the Incentive Plan by the Company to Alan Coulthard or his nominee on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion: For the purposes of Section 224 of the Corporations Act the Company will disregard any votes cast by or on behalf of Alan Coulthard or his Associates.

However, the Company will not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

In accordance with Section 250BD of the Corporations Act, a vote on this Resolution must not be cast by or on behalf of a member of the Key Management Personnel, or a Closely Related Party of such a member.

A vote may be cast by such a person if the vote is not cast on behalf of a person who is excluded from voting on this Resolution, and:

- (a) The person is appointed as proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (b) The person is the Chairman and appointment of the Chairman as proxy does not specify the way the proxy is to vote on the Resolution, but expressly authorises the Chairman to exercise the proxy even if the resolution is connected with the remuneration of a member of Key Management Personnel.

12. Special Resolution – To Adopt a New Constitution

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

“That, subject to the due passage of Resolutions 1 – 8, and with effect from the time of the change of company type contemplated by Resolution 7, the Company adopt a new Constitution in the form of the document to be tabled at the Meeting as the Constitution of the Company in substitution for the existing Constitution.”

DATED this 20th day of September 2016.

BY ORDER OF THE BOARD

Graham Seppelt
Company Secretary

Notes:

Definitions

Terms which are used in this Notice and which are defined in Section 8 of the Explanatory Memorandum have the meanings ascribed to them therein.

Address

If you have recently changed your address or if there is an error in the name and address used for this Notice please notify the Company Secretary. In the case of a corporation, notification is to be signed by a director or company secretary.

Voting Entitlement

The Board has determined that a Shareholder's entitlement to vote at the Meeting will, in accordance with the Corporations Act, be the entitlement of that Shareholder set out in the register of members as at 6pm Perth time on the 10th day of October 2016.

This means that any Shareholder registered at 6pm Perth time on the 10th day of October 2016 is entitled to attend and vote at the Meeting.

Proxies

A member entitled to attend this Meeting and vote is entitled to appoint a proxy to attend and vote for the member at the Meeting. A proxy need not be a member. If the member is entitled to cast 2 or more votes at the Meeting the member may appoint 2 proxies. If a member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes. A form of proxy is attached with this notice.

A body corporate appointed as a Shareholder's proxy may appoint a representative to exercise any of the powers the body may exercise as a proxy at the Meeting. The representative should bring to the Meeting evidence of this appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

A proxy's authority to speak and vote for a Shareholder at the Meeting is suspended if the Shareholder is present at the Meeting.

The proxy form must be signed and dated by the Shareholder or the Shareholder's attorney. Joint Shareholders must each sign.

In accordance with section 250BA of the Corporations Act, the Company specifies the following information for the purposes of receipt of proxy appointments. To vote by proxy, please complete and sign the proxy form enclosed with this Notice as soon as possible and either:

- Return the proxy form by post to Australian Zircon NL, PO Box 424, West Perth, WA 6872; or
- Return the proxy form by delivery to Australian Zircon NL, 52 Ord Street, West Perth WA 6005 ; or
- Send the proxy form to Australian Zircon NL on facsimile number +61 (0) 8 9481 5142.

To be effective a completed proxy form must be received by the Company by no later than 11 am (Perth Time) on 11 October 2016.

Where the proxy form is executed under power of attorney, the power of attorney must be lodged in like manner as the proxy.

Bodies Corporate

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of a company's shareholders. The appointment may be a standing one.

Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

The representative should bring to the Meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

AUSTRALIAN ZIRCON NL
ACN 063 389 079

EXPLANATORY MEMORANDUM

This Explanatory Memorandum forms part of a Notice convening a General Meeting of Australian Zircon NL to be held at 11am on Thursday 13 October 2016 at 52 Ord Street, West Perth, Western Australia, 6005. This Explanatory Memorandum is to assist Shareholders in understanding the background to and the legal and other implications of the Notice and the reasons for the Resolutions proposed. Certain terms used in the Notice and this Explanatory Memorandum are defined in Section 8.

1. RESOLUTIONS 1, 2, 3 & 4

BACKGROUND

Following the meeting of shareholders held on 13 April 2016 the Company completed the disposal of its 80% interest in the WIM150 Joint Venture with effect from 26 May 2016.

Following completion of the sale of the 80% interest in the WIM150 Joint Venture the assets of the Company comprise cash which net of liabilities as at the date of this Explanatory Memorandum amounts to \$218,613 together with the ELs. Importantly, the Company is free of debt, the previous debt owed to DCM having been extinguished as part of the completion of the sale of the 80% interest in the WIM150 Joint Venture.

The issued capital of the Company comprises 1,474,715,121 ordinary fully paid shares and 7,363,026 partly paid shares.

The Board has determined that the only viable future for the Company is for it to attempt to procure an asset or a project which will enable it to raise equity. The Board considers that this will be more achievable if done in the process of having the Company listed on ASX.

As foreshadowed in the notice convening the meeting held on the 13th of May 2016, the capital structure of the Company is, in the Board's opinion, unsustainable in its present form and the purpose of the Reconstruction is, therefore, to adjust the capital structure to a form that will render the Company more likely to be able to procure an appropriate asset/project and an ASX listing.

Under the Listing Rules as they apply at the date of this Explanatory Memorandum a company which is seeking to be admitted to the Official List of ASX must satisfy, amongst other things, a requirement that it has between 300 and 400 shareholders each having a parcel of the main class of securities with a value of at least \$2,000

excluding “restricted securities” and, if the company has previously been removed from the Official List, excluding securities not acquired under a recent prospectus.

In the case of AZC, this would require that it has between 300 and 400 qualifying Shareholders each holding a parcel of 10,000 Shares.

The Reconstruction that will be effected pursuant to Resolution 1 will result in AZC having no less than 312 Shareholders each holding at least 10,000 Shares which should, the Board believes, significantly assist in meeting this admission requirement. If it is proposed that an Existing Application will be made (see below for the circumstances under which this will occur) the Board will seek “in-principle advice” from ASX that it will be prepared, at the appropriate time, to grant a waiver from the requirement in Condition 7 of Listing Rule 1.1 that would otherwise exclude these Shareholders from being counted towards satisfaction of the “spread” requirement for the Company to have between 300 and 400 qualifying shareholders because AZC has previously been removed from the Official List.

The Reconstruction contemplated by Resolution 1 will apply if an Existing Application is made. An Existing Application will be made if at the time the Company has acquired an appropriate asset/project and has all other necessary steps in place to lodge an application for admission to the Official List, the Listing Rules in relation to admission criteria remain unchanged by comparison to the relevant Listing Rules at the date of this Explanatory Memorandum.

The ASX has issued the Consultation Paper in which it has indicated a possibility that the admission requirements in Listing Rule 1.1 will change. The current proposed date for such change is 19 December 2016.

The most relevant changes to admission criteria contemplated by the Consultation Paper are to impose a requirement that the entity applying for admission must have a “free float” at the time of its admission to the Official List of not less than 20% and if the “free float” has a value of less than \$50 million, there must be at least 200 non-affiliated security holders each of whom holds a parcel of the main class of securities that are not restricted securities or subject to voluntary escrow with a value of at least \$5,000.

Resolution 2 is designed to effect the Reconstruction in a way that will be better suited if a Proposed Application is made, that is, if AZC makes its application to be admitted to the Official List after the proposed changes to the admission criteria in Listing Rule 1.1 foreshadowed by the Consultation Paper have been effected. The Reconstruction that will be effected pursuant to Resolution 2 will result in AZC having no less than 200 Shareholders each holding at least 25,000 Shares which should, the Board believes, significantly assist in meeting the admission requirement that there must be at least 200 non-affiliated holders that would apply if the changes to admission criteria in the Listing Rules referred to above come into effect.

The Reconstruction contemplated by either Resolution 1 or Resolution 2 will be effected by the Board making the reduction which will be after the expiry of 14 days from the lodgement of a copy of the relevant Resolution with ASIC. The Board will make the reduction for this purpose at a time determined by them to be relevant given the success of their efforts in securing an appropriate asset/project, funding and other necessary requirements to make an application to ASX for the Company to be admitted to the Official List.

There can be no assurance given that either an Existing Application or a Proposed Application will be made at any time in the future or at all.

Resolution 3 is an ancillary resolution to Resolution 1 and is required by the Corporations Act provisions set out below under the heading "Regulatory Requirements".

Resolution 4 is an ancillary resolution to Resolution 2 and is required by the Corporations Act provisions set out below under the heading "Regulatory Requirements".

The passage of Resolutions 1 and 2 are subject, amongst other things, to the passage of Resolution 6 and to Completion occurring under the Share Sale Agreement. Completion under the Share Sale Agreement is, in turn, conditional upon the passage of Resolutions 1, 2, 3 and 4.

If Completion of the Share Sale Agreement does not occur, due to the non-passage of Resolutions 1 - 6 (inclusive) or otherwise, DCM has indicated that it will take whatever steps are available to it to have the Company wound up.

EFFECT OF RESOLUTIONS

In essence the effect of the passage and implementation of Resolution 1 will be as follows:

- (a) the Shareholdings of the Category 3A Shareholders will remain unchanged;
- (b) the Shareholdings of the Category 1A Shareholders will be reduced such that each Category 1A Shareholder will be left with approximately 0.4757261% of its existing Shareholding;
- (c) the Shareholdings of the Category 4A Shareholders will become 10,000 Shares each;
- (d) the Shareholdings of the Category 2A Shareholders will be cancelled. (These Shareholdings would if reduced at the same rate as applies to the Category 1A Shareholders result in less than 1 whole Share.)

In essence the effect of the passage and implementation of Resolution 2 will be as follows:

- (a) the Shareholdings of the Category 1B Shareholders will not be affected;
- (b) the Shareholdings of each of the Category 2B Shareholders will be reduced to 25,000 Shares;
- (c) the Shareholdings of the Category 3B Shareholders will be cancelled. (These Shareholdings would if reduced at the same rate as applies to the Category 4B Shareholders result in less than 1 whole Share.); and
- (d) the Shareholdings of the Category 4B Shareholders will be reduced such that each Category 4B Shareholder will be left with approximately 0.3403421% of its existing Shareholding.

If Resolution 1 and Resolution 2 are passed and one of them is implemented the Board will have resolved to pursue a path towards the Company being admitted to the Official List. If Resolutions 1 and 2 are not passed or one or other of them is not implemented the likelihood is that the Company will be wound up.

The passage of Resolutions 1, 2, 3 and 4 will not, per se, affect the financial position of the Company. Please refer below under the heading “Regulatory Requirements” for further information on the effects of the Reconstruction.

REGULATORY REQUIREMENTS

Corporations Act – Chapter 2J

Chapter 2J of the Corporations Act provides authority for a company to reduce its share capital.

The Corporations Act distinguishes between an “equal reduction” and a “selective reduction”. The relevant definitions are:

“The reduction is either an equal reduction or a selective reduction. The reduction is an equal reduction if:

- (a) it relates only to ordinary shares; and
- (b) it applies to each holder of ordinary shares in proportion to the number of ordinary shares they hold; and
- (c) the terms of the reduction are the same for each holder of ordinary shares.

Otherwise, the reduction is a “selective reduction”.”

The Corporations Act provides in subsection 256B(1) that:

“A company may reduce its share capital in a way that is not otherwise authorized by law if the reduction:

- (a) is fair and reasonable to the company’s shareholders as a whole; and
- (b) does not materially prejudice the company’s ability to pay its creditors; and
- (c) is approved by shareholders under section 256C.”

Subsection 256C(2) of the Corporations Act is as follows:

“(2) Special shareholder approval for selective reduction

If the reduction is a selective reduction, it must be approved by either:

- (a) a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction or whose liability to pay amounts unpaid on shares is to be reduced, or by their associates; or
- (b) a resolution agreed to, at a general meeting, by all ordinary shareholders.

If the reduction involves the cancellation of shares, the reduction must also be approved by a special resolution passed at a meeting of the shareholders whose shares are to be cancelled.”

Resolutions 1 and 2 are each designed to fulfil the requirements of Subsection 256C(2) of the Corporations Act in relation to the respective forms of Reconstruction they apply to.

Resolution 3 is, in relation to the reduction contemplated by Resolution 1, designed to fulfil the requirements of Subsection 256C(2) of the Corporations Act insofar as that Subsection requires that the reduction must also be approved by a meeting of those Shareholders whose Shares are to be cancelled.

Resolution 4 is, in relation to the reduction contemplated by Resolution 2, designed to fulfil the requirements of Subsection 256C(2) of the Corporations Act insofar as that Subsection requires that the reduction must also be approved by a meeting of those Shareholders whose Shares are to be cancelled.

In essence, the reason why the Capital Reconstruction is proposed is that given the financial state of the Company, its capital structure and the current spread of

its Shareholdings, the only potential value that is considered to be attributable to the Company from the perspective of the Shareholders is the so-called “shareholder base”. The “shareholder base” is only of value if the number of Shares on issue is reduced to the extent contemplated by Resolutions 1 and 2 and in a manner which, at the same time, maximises the “spread” of qualifying Shareholders for the purposes of the Listing Rules. This needs to be considered in the context of the stated intention of DCM to seek the winding up of the Company in the absence of the passage of Resolutions 1, 2, 3 and 4.

Subsection 256C(4) of the Corporations Act requires that a notice of meeting in respect of a “selective reduction” must also contain all known information that is material to the decision on how to vote.

All such information is considered to be contained in the Notice and the Explanatory Memorandum.

ASC Policy

The Australian Securities Commission (the predecessor to ASIC) issued a Practice Note (Practice Note 29) in relation to “selective capital reductions” in which it sets out its views on what information should be provided to shareholders by a company which is proposing a selective capital reduction. It is assumed that the ASIC adopts the views expressed in that Practice Note. The information set out hereunder and elsewhere in this Explanatory Memorandum is intended to comply with the relevant views expressed by the Australian Securities Commission in Practice Note 29:

1. This Explanatory Memorandum contains all information known to the Company and to the Incoming Director to be material to the making of the decision by the Shareholders who are entitled to vote on Resolutions 1, 2, 3 and 4.
2. Set out hereunder are the interests of Directors in terms of:
 - (a) the securities affected by the Capital Reduction;
 - (b) the securities of the Company generally; and
 - (c) any general interest in the broad proposal to be effected.

Two of the Directors Messrs Shervington and Jacobs have a particular interest in the passage of Resolutions 1, 2, 3 and 4 in that the Share Sale Agreement is conditional on the passage of those Resolutions and they are the Purchasers under the Share Sale Agreement. The third Director Dr Kornfeld, also has an interest in Resolutions 1, 2, 3 and 4 by reason that the Share Sale Agreement is conditional on the passage of those

Resolutions and DCM, of which he is the Managing Director is the Vendor under the Share Sale Agreement.

Further, Mr Shervington has an entitlement to 1,225,480 Shares and 900,000 Partly Paid Shares. Under Resolution 5 these 900,000 Partly Paid Shares will be extinguished and under Resolution 1 these 1,225,480 Shares will be reduced to 155,027 Shares. Under Resolution 2 these 1,225,480 Shares will be reduced to 4,170 Shares and the Partly Paid Shares will be extinguished pursuant to Resolution 5.

Under Resolution 1 the 1,067,479,114 Shares held by DCM will be reduced to 5,078,277 Shares. Pursuant to the Share Sale Agreement these Shares will, if an Existing Application is made, be acquired by Messrs Shervington and Jacobs in equal shares.

Under Resolution 2 DCM's Shares will, if a Proposed Application is made, be reduced to 3,633,081 Shares. Under the Share Sale Agreement these Shares will be acquired by Messrs Shervington and Jacobs in equal shares.

Neither Messrs Jacobs or Kornfeld hold any Shares or Partly Paid Shares in their own rights. The Incoming Director does not hold any Shares or Partly Paid Shares.

Messrs Shervington and Jacobs will, it is proposed, continue as directors of the Company and be issued Options as will the Incoming Director pursuant to Resolutions 9, 10 and 11.

3. Messrs Shervington and Jacobs have an interest in the outcome of Resolutions 1 – 4 as the Share Sale Agreement in which they have a direct interest is conditional upon the passage of those Resolutions. They refrain, therefore, from making any recommendation. Dr Kornfeld, as the Managing Director of DCM, the Vendor under the Share Sale Agreement, also declines to make any recommendation but notes that the passage of Resolutions 1 – 4 will provide some potential for return to most of the Shareholders as opposed to the alternative which, in light of the stated intent of DCM, is considered, after taking into account the costs of liquidation, to be nil or close to nil return.
4. There are no benefits “in relation to the Capital Reduction” that are being offered or will be offered to any person which are not being offered to all Shareholders. There is an impact arising from the unequal nature of the Reconstruction. Under Resolution 1 approximately 99.78% of the total number of shares will be affected in an identical manner by having an identical percentage of the shares held cancelled. The percentage of total shareholdings that are being completely cancelled under Resolution 1 is

approximately 0.00014%. The percentage of the total shareholdings whose shares are not affected under Resolution 1 is approximately 0.10%. The percentage of the total shareholdings which are having holdings in excess of 10,000 shares being cancelled under Resolution 1 is approximately 0.12%. In the case of Resolution 2 the percentage of total shareholdings that is being treated identically is approximately 99.62%. Under Resolution 2 the percentage of total shareholdings that are not affected is approximately 0.08%. Under Resolution 2 the percentage of total shareholdings that are being cancelled is approximately 0.00021%. Under Resolution 2 the percentage of total shareholdings that are having shareholdings in excess of 25,000 cancelled is approximately 2.95%. Indirect benefits may arise by reason that the passage of the Resolutions is a condition of the Share Sale Agreement under which Messrs Shervington and Jacobs are Purchaser and DCM is the Vendor.

5. No person will receive consideration as part of the Capital Reduction and no person will have any liability to pay amounts unpaid on Shares reduced as part of the Capital Reduction. Accordingly it is not proposed that any Shareholder will be precluded from voting on Resolutions 1 or 2.
6. None of the Shareholders whose Shares are not being cancelled will be entitled to vote on Resolution 3 or Resolution 4.
7. The Capital Reduction will not of itself have any effect on the capacity of the Company to pay its existing liabilities. The only effects on the financial or capital structure of the Company will be:
 - (a) in the case of Resolution 1 - to reduce paid up capital and, correspondingly, accumulated losses, by approximately \$108,777,210; and
 - (b) in the case of Resolution 1 - to reduce the number of issued Shares from 1,474,715,121 to approximately 10,010,000;
 - (c) in the case of Resolution 2 – to reduce paid up capital and, correspondingly, accumulated losses, by approximately \$108,754,210; and
 - (d) in the case of Resolution 2 – to reduce the number of issued Shares from 1,474,715,121 to approximately 10,025,000.

The Capital Reduction will facilitate the implementation of the Board's plans to recapitalise the Company in conjunction with seeking its admission to the Official List which will, if such plans are implemented, affect the financial and capital structure of the Company as disclosed elsewhere in this Explanatory

Memorandum. As noted elsewhere, no assurance can be given that the Board's plans in this regard will succeed.

OTHER INFORMATION – TAXATION

Because of the complexities involved in taxation issues particularly given the varying circumstances and different taxation profiles of each Shareholder, Shareholders are advised to seek their own taxation advice on the effect of the Capital Reduction and other Resolutions on them and neither the Company, the Directors nor the Incoming Director nor any of their respective advisers offer any such advice or accept any responsibility for any individual Shareholder's taxation consequences of the Resolutions.

2. RESOLUTION 5 – FORFEITURE AND CANCELLATION – PARTLY PAID SHARES

The Partly Paid Shares require the holder to pay \$0.40 per Partly Paid Share if a call is made. Rather than consolidate/reduce the Partly Paid Shares the Board has resolved to call up the unpaid capital in respect of the Partly Paid Shares.

Given the amount to be paid it is expected that no holder will pay a call.

Section 258D of the Corporations Act provides that a company may, by resolution passed at a General Meeting, cancel shares that have been forfeited under the terms on which the shares are on issue.

Under Section 254P of the Corporations Act a call on a share in a no liability company is not effective unless it is made payable at least 14 days after the call is made. Further, at least 7 days before a call on shares becomes payable, the company must give the holders of the shares notice of the amount of the call, the day when it is payable and the place for payment.

Under Section 254Q of the Corporations Act a share in a no liability company is immediately forfeited if a call is made on the share and the call is unpaid at the end of 14 days after it became payable.

Under the Constitution if a Shareholder fails to pay a call on the due date, or within 14 days thereafter, the Shares in respect of which the call was made are thereupon forfeited.

The Board will follow the procedures in the Corporations Act and in the Constitution for the making of calls in respect of the Partly Paid Shares and expects that the majority if not all of the Partly Paid Shares will be forfeited. Those of the Partly Paid Shares that are forfeited will be cancelled pursuant to Resolution 5.

3. RESOLUTION 6 – ACQUISITION OF SALE SHARES

Section 606 of the Corporations Act prohibits the acquisition of relevant interests in voting shares in an unlisted company with more than 50 members through a transaction if because of that transaction the acquirer's voting power in the relevant company increases from 20% or below to more than 20%.

Pursuant to the Sale and Purchase Agreement the purchasers agreed to acquire the Sale Shares. The Sale Shares constitute approximately 73% of the issued capital of the Company and the acquisition, therefore, falls within the terms of Section 606 of the Corporations Act.

Section 611 Item 7 of the Corporations Act excludes from the prohibition in Section 606 an acquisition of relevant interests in voting shares in a company if the company has approved of the acquisition by a resolution passed at a general meeting at which no votes were cast in relation to the resolution in respect of any shares held by, or by an associate of, the person proposing to make the acquisition and their associates or by the person from who the acquisition is to be made and their associates.

Section 611 of the Corporations Act provides that the following information must be provided to Shareholders in connection with a vote on a resolution designed to satisfy its requirements:

The members of the company must be given all information known to the person proposing to make the acquisition or their associates, or known to the company, that was material to the decision on how to vote on the resolution, including:

- 1 *the identity of the person proposing to make the acquisition and their associates; and*
- 2 *the maximum extent of the increase in that person's voting power in the company that would result from the acquisition; and*
- 3 *the voting power that person would have as a result of the acquisition; and*
- 4 *the maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition; and*
- 5 *the voting power that each of that person's associates would have as a result of the acquisition.*

Resolution 6 is, therefore, designed to fulfil the requirements of Section 611 of the Corporations Act in relation to the acquisition of the Sale Shares by the Purchasers from the Vendor.

ASC Policy Statement

The ASC (the predecessor to the ASIC) issued a Policy Statement (No. 74) which sets out the information which the ASC considered should be provided to the shareholders of the relevant company in relation to resolutions put for the purpose of Section 623 of the Corporations Law (as it then was). It is assumed that ASIC has adopted the same policy and that it will apply to Section 611 of the Corporations Act. The information set out below is intended to fulfil the requirements of ASC Policy Statement No. 74 and Section 611 of the Corporations Act:

- (a) the identity of the acquirer and any person who will have a relevant interest in the Shares to be allotted.

The acquirers of the Sale Shares are the nominees of the Purchasers. The Purchasers are Messrs JD Shervington and JJ Jacobs, two of the Directors of the Company. The nominee of Mr Shervington will be either Panga Pty Ltd, Drumgaghan Pty Ltd (both of which are controlled by him) or another entity controlled by him. The nominee of Mr Jacobs will be FinMin Solutions Pty Ltd (controlled by him) atf either The Jacobs Family Super Fund or The JADS Trust.

- (b) all particulars (including both the number and percentage) of the Shares in the Company to which the acquirers will be “entitled” immediately before and after the proposed acquisition:

As at the date hereof and, it is anticipated, immediately prior to the Completion Date:

Mr Shervington has and will have a “voting power” of 1,225,480 votes attaching to voting Shares in the Company disregarding any voting power attaching to the Partly Paid Shares that he controls as these will be forfeited once the Call Procedure is effected and disregarding the Sale Shares;

Mr Jacobs does not have any “voting power” attaching to voting Shares in the Company disregarding the Sale Shares.

Each of the Purchasers has informed the Company that as from Completion they will hold the Sale Shares acquired under the Sale and Purchase Agreement independently of each other.

The issued capital of the Company will immediately upon Completion occurring assuming no other Shares are issued, assuming the Reconstruction is not yet effected and assuming all of the Partly Paid

Shares are extinguished pursuant to the Call Procedure comprise 1,474,715,121 issued voting Shares.

Immediately upon Completion, therefore, the voting power of Mr Shervington will, on the above bases, become approximately 36.3% namely 534,965,037 votes out of a total of 1,474,715,121 votes.

Immediately upon Completion, therefore, the voting power of Mr Jacobs will, on the above bases, become approximately 36.2% namely 533,739,557 votes out of a total of 1,474,715,121 votes.

These percentages are based on the assumptions noted above and that neither of the Purchasers otherwise acquire or dispose of any other voting shares in the Company.

- (c) the identity, associations with the acquirers and with any of their associates and qualifications of the persons who it is intended will become Directors if Shareholders agree to the acquisition:

It is anticipated that at Completion Dr Kornfeld will retire as a Director. At this stage while the Board is looking at potential opportunities for the Company it is anticipated that Mr Alan Coulthard a long term business associate of Mr Shervington will consent to act as a director. Mr Coulthard is a retired accountant currently residing in the United Kingdom. He has previous experience as a director of ASX listed companies. Mr Coulthard does not have any interest in any Shares.

- (d) a statement of the acquirers' intentions regarding the future of the Company if Shareholders agree to the acquisition and in particular:

- 1 *any intention to change the business of the Company.*
- 2 *any intention to inject further capital into the Company, and if so how.*
- 3 *the future employment of the present employees of the Company.*
- 4 *any proposal whereby any property will be transferred between the Company and the acquirers or any person associated with any of them.*
- 5 *any intention to otherwise re-deploy the fixed assets of the Company.*

The Purchasers intend that as from Completion the Company will focus its attention and resources on the acquisition of an appropriate asset/project to assist in seeking admission to the Official List. At the present time the Purchasers do not otherwise intend to alter the operations or employees other than as noted above in relation to the Board.

The Purchasers do not presently have any intention to inject further capital (other than pursuant to the exercise of Options) into the Company other than that they will be, at the appropriate time, seeking to raise the necessary capital required to enable the Company to meet the admission requirements of ASX. As necessary the Company may need to raise working capital in anticipation of this occurring. Any such raising will be minimised to the extent practicable pending a more significant raising in the course of seeking ASX admission. Neither of the Purchasers proposes that any property will be transferred between it (or any associates) and the Company. The Purchasers do not presently intend to redeploy any of the Company's fixed assets.

- (e) particulars of the terms of the proposed acquisition and any other contract or proposed contract between the acquirers and the Company or any of their associates which is conditional upon or directly or indirectly dependant upon shareholders' agreement to the acquisition;

As described elsewhere in this Explanatory Memorandum.

- (f) when the acquisition is to be made;

Completion of the acquisition of the Sale Shares pursuant to the Sale and Purchase Agreement is expected to occur within 5 Business Days of the Meeting.

- (g) an explanation of the reasons for any proposed acquisition;

DCM following the disposal of the WIM150 project wanted to finalise its investments in Australia.

- (h) the interests of the Directors in the Resolution numbered 6.

Messrs Shervington and Jacobs have a material personal interest in the Resolution as they are the Purchasers. Dr Kornfeld has an interest by reason that he is the Managing Director of DCM which is the Vendor of the Sale Shares.

- (i) in the case of a listed company any additional information that the Listing Rules require to be disclosed.
(Not applicable).

Policy Statement 74 also provides that shareholders of the Company should be provided with:

- (A) the identity of the Directors who approved or voted against the proposal to put the resolution to Shareholders and the relevant explanatory memorandum to Shareholders;

Pursuant to Section 195(4) of the Corporations Act Messrs Shervington, Jacobs and Kornfeld resolved to convene the Meeting to consider the Resolutions.

- (B) the recommendation or otherwise of each Director as to whether non-associated shareholders should agree to the acquisition and the reason for that recommendation or otherwise;

Messrs Shervington and Jacobs make no recommendation because of their personal interest in the subject matter of the Resolution. Dr Kornfeld makes no recommendation as to whether Shareholders vote in favour of the Resolution given that he is a Director of DCM but refers Shareholders to the Independent Expert's Report which concludes that "the advantages of the Proposed Transaction outweigh the disadvantages from the perspective of the Non-Associated Shareholders of Australian Zircon."

- (C) any intention of the acquirers to change significantly the financial or dividend policies of the Company.

After Completion the financial policies of the Company will be guided by the circumstances that the Company is faced with from time to time. There are currently no dividend policies in place in respect of the Company.

- (D) an analysis of whether the proposal is fair and reasonable when considered in the context of the interests of the shareholders other than those involved in the proposed acquisition or associated with such persons.

Policy Statement 74 provides that the directors of a company may satisfy their obligation to provide shareholders with an analysis of a "Section 623" proposal by those directors not associated with the proposal commissioning an independent expert's report. Attached to this Explanatory Memorandum is a report prepared by the Independent Expert as requested by Dr Kornfeld being the director not having a material personal interest in the proposal.

Policy Statement 74 also provides that regardless of whether an independent expert's report is provided shareholders should be informed of the particulars of how the proposal was examined and evaluated as well as the results of the examination and evaluation. The Directors because of their respective involvements with the proposal do not wish to comment

on this aspect other than to refer Shareholders to the Independent Expert's Report.

Policy Statement 74 requires that the Notice of Meeting and information memorandum should be despatched to shareholders not less than 21 days before the meeting. This requirement has been met by the Notice of Meeting.

4. SPECIAL RESOLUTION 7 – CHANGE OF COMPANY TYPE

The Company is currently a public no liability company and proposes to change to a public company limited by shares to enable it to pursue alternative business opportunities other than mining following the disposal of the WIM150 Project. In accordance with the Corporations Act, a public no liability company must not engage in activities outside of its mining purposes objects. As such it is proposed to change the Company's status to a limited company so that it may consider other activities outside of mining. It is important to note that as a public company limited by shares, the Company will still be able to engage in mining and exploration activities.

In accordance with section 162 of the Corporations Act, a public no liability company may change to a public company limited by shares by passing a Special Resolution resolving to change its type (but only if all of its shares are fully paid up). Resolution 7 is, therefore, conditional upon the cancellation of the Forfeited Shares pursuant to Resolution 5.

Accordingly, the Company is seeking the approval of Shareholders by Special Resolution to change from a public no liability company to a public company limited by shares.

5. SPECIAL RESOLUTION 8 –CHANGE OF COMPANY NAME

The Board considered it appropriate that the Company change its name given that it is no longer focussed on zircon exploration/mining, having disposed of its interest in the WIM150 project.

6. RESOLUTIONS 9, 10 & 11 – ISSUE OF SECURITIES

Resolutions 9, 10 and 11 seek Shareholder approval for the issue of Incentives to two of the Directors of the Company and the Incoming Director. The Incentives are proposed to be issued under the Plan.

Shareholder approval is sought under Chapter 2 E of the Corporations Act regulating the provision of financial benefits including the issue of securities to related parties of the Company.

The Performance Rights to be issued pursuant to Resolutions 9, 10 and 11 will be issued on the following performance conditions:

Each Incentive may only be exercised if:

- The ordinary securities of the Company have been reinstated to quotation on ASX by no later than 5 years from the date of the Meeting; and
- The holder of the Incentive (or in the case of the holder being a nominee, the Director on whose behalf the nominee holds the relevant Incentives) must not have ceased to be a Director of the Company more than 6 months prior to the date on which the ordinary securities of the Company are reinstated to quotation on ASX.

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act regulates the provision of financial benefits to related parties by a public company. Section 208 of the Corporations Act prohibits a public company from giving a financial benefit to a related party unless one of the exceptions to Section 208 applies or shareholders have approved the giving of that benefit to the related party.

A “financial benefit” is defined in the Corporations Act in broad terms and includes a public company, issuing securities, and buying an asset from a related party.

Each of the Directors and the Incoming Director are “related parties” for the purposes of the Corporations Act. The proposed issue of Incentives pursuant to Resolutions 9, 10 and 11 involves the provision of a financial benefit to related parties of the Company.

Section 210 of the Corporations Act provides that a company does not need to obtain shareholder approval to give a financial benefit to a related party if the giving of the financial benefit would be reasonable in the circumstances if the party and the entity were dealing at arm’s length (or on terms less favourable than arm’s length).

Notwithstanding the above, the Board is of the view that it is prudent to seek Shareholder approval under Section 208 of the Corporations Act for the issue of Incentives as contemplated by Resolutions 9, 10 and 11.

Section 208 of the Corporations Act provides that for a public company to give a financial benefit to a related party of that company, the public company must:

- (a) obtain the approval of members in the way set out in Section 217 and 227; and
- (b) give the benefit within 15 months after the approval.

In accordance with Chapter 2E, and in particular Section 219 of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed issue of Incentives as contemplated by Resolutions 9, 10 and 11:

The related parties to whom the resolutions would permit the financial benefit to be given

The related parties are Messrs J Shervington and J Jacobs Directors of the Company and Mr A Coulthard the Incoming Director.

The nature of the financial benefit

The financial benefit proposed to be given is the granting of the Incentives (and ultimately the issue of Options if the Incentives are exercised under the Plan to the Related Parties as detailed above for no issue price). The Board wishes to retain the services of Messrs Shervington and Jacobs and the Incoming Director while the Company progresses through the next stage of seeking a suitable project and obtaining an ASX listing. The Company has extremely limited resources. The Board, therefore, wishes to conserve its expenditure and is unable to pay Board members the appropriate remuneration in cash. As a result the Board wishes to put to Shareholders for their consideration the Incentive Plan as a means of supplementing the cash payments made to Directors and as an incentive for Board members to continue to assist the Company with the development and recapitalisation required.

Directors' recommendation and basis of recommendation

The Directors have considered the proposal only for the purpose of resolving to put the matter to Shareholders for the purpose of Section 195 of the Corporations Act. Messrs Shervington and Jacobs are precluded from making a recommendation because they all have an interest in the outcome of the Resolutions proposing the issue of Incentives to the Directors. Dr Kornfeld recommends that Shareholders vote in favour of the Resolutions as he considers it appropriate that the ongoing Directors be remunerated adequately and given that the Company does not have adequate cash resources to pay a reasonable cash remuneration. The Directors are not aware of any information other than as is contained in this Notice that might be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 9,10 and 11.

Directors' and Proposed Directors' interest in the outcome

Mr Shervington's interest in the outcome of Resolution 9 is that he will be issued 5 million Incentives for no issue price.

Mr Jacobs' interest in the outcome of Resolution 10 is that he will be issued 5 million Incentives for no issue price.

Mr Coulthard's interest in the outcome of Resolution 10 is that he will be issued 1 million Incentives for no issue price.

Directors' remuneration packages

In the last financial year the Directors received the following remuneration from the Company:

Year Ended 30 June 2016

	Cash Salary & Fees \$	Superannuation \$	Security Based Payment \$	Total \$
Mr J Shervington *	157,991	-	-	157,991
Dr G Kornfeld	78,116	-	-	78,116
Mr T Styblo **	33,000	-	-	33,000
Mr J Jacobs	36,000	-	-	36,000

* This includes legal fees of \$109,991 for legal services provided in the ordinary course of business during the year by a legal practice controlled by Mr Shervington.

** Mr Styblo resigned as a director during the 2016 financial year.

In the current financial year it is expected that the ongoing Directors will receive remuneration from the Company that is less than that received in accordance with the 2016 financial year rates above and it is expected that a legal practice controlled by Mr Shervington will receive arms length fees for legal services provided.

Related parties existing interests

Messrs Shervington and Kornfeld currently have interests in the following securities of the Company:

Mr Shervington has a relevant interest in 1,216,230 fully paid shares and 900,000 partly paid shares.

Mr Kornfeld is an executive of DECOmetal GmbH in Liqi which owns 1,067,479,114 Shares in the Company.

Neither Mr Coulthard nor Mr Jacobs have interest in Shares or Partly Paid Shares.

Dilution

The effects of the issue of the 11 million Incentives to the Directors and the Incoming Director will, if the 11 million Performance Rights were to vest and the corresponding Options be exercised resulting in the issue of 11 million Shares, be to dilute the shareholding of existing Shareholders to approximately 47.6% of the then expanded capital assuming that there were no other changes to the issued capital of the Company prior to the date of issue of those 11 million Shares. However, the Performance Rights will only vest if the Company is admitted to Official List and in order for that to occur the Company will need to have raised a significant level of cash and to have acquired an appropriate project. This will necessarily involve it having issued securities which will lessen the impact of the above dilution. The exercise of the 11 million Options would also involve the injection of \$2.2 million into the Company.

Trading history

The last trading price of Shares on ASX was \$0.027 prior to trading in the Company's Shares being suspended from quotation on 20 August 2009.

Valuation of financial benefit

The financial benefit which is being provided by the Company to the Directors under Resolutions 9, 10 and 11 is 11 million Incentives. The Board has had a valuation of the Options carried out using a Black & Scholes pricing model which has concluded as follows:

Valuation Assumptions	Options
Underlying Share Spot Price	\$0.20
Exercise Price	\$0.20
Issue Date	TBD
Expiration Date	5 years after Issue Date
Volatility	100%
Risk Free Rate	1.6%
Valuation Per Option	\$0.1494

To ascribe any value to a Performance Right/Incentive would involve multiplying the value of an Option (valued as per the above calculation) by the percentage chance of the Company "relisting" on ASX within 5 years and making the assumption that the relevant director would remain as a Director until at least 6 months prior to the Company being admitted to the Official List. It is virtually

impossible to ascribe with any degree of certainty a percentage chance of the Company “relisting” within 5 years.

The Chairman of the Meeting intends to vote all undirected proxies in favour of Resolutions 9, 10 and 11.

7. **RESOLUTION 12**

The Board considers that the proposed new Constitution, which is in a standard form used by the Company’s solicitors, is appropriate as the existing Constitution has various references to corporations legislation and Listing Rules that are outdated.

8. **DEFINITIONS**

In the Notice and in this Explanatory Memorandum:

“**Associates**” has the meaning given in Sections 10 to 17 of the Corporations Act;

“**ASX**” means ASX Limited ACN 008 624 691;

“**Board**” means the Board of Directors as constituted from time to time;

“**Business Day**” means any day on which trading banks are open to the public in Western Australia;

“**Call**” means a call made pursuant to clause 5.1 of the Constitution;

“**Call Procedure**” means the procedures in relation to Calls, payment of Calls and Forfeiture as set out in the Constitution;

“**Capital Reduction**” and “**Selective Capital Reduction**” means a selective reduction of the paid up capital of the Company as approved by Shareholders pursuant to which Shareholdings will be adjusted in the manner contemplated either by Resolution 1 or Resolution 2.

“**Category 1A Shareholders**” means”

- (a) those 1,817 Shareholders between Shareholder numbered 6 (holding 1,067,479,114 Shares and Shareholder numbered 1822 (holding 13,500 Shares) (inclusive) (totalling 1,468,176,557 Shares); plus

- (b) those 902 Shareholders between Shareholder numbered 2123 (holding 9,900 Shares) and Shareholder numbered 3024 (holding 230 Shares) (inclusive) (totalling 3,258,087 Shares);

“Category 2A Shareholders” means those 64 Shareholders between Shareholder numbered 3025 (holding 207 Shares) and Shareholder numbered 3088 (holding 1 Share) (inclusive) (totalling 2144 Shares);

“Category 3A Shareholders” means those 151 Shareholders between Shareholder numbered 1972 and Shareholder numbered 2122 each holding exactly 10,000 Shares (totalling 1,510,000 Shares);

“Category 4A Shareholders” means those 149 Shareholders between Shareholder numbered 1823 (holding 13,500 Shares) and Shareholder numbered 1971 (holding 10,046 Shares) (inclusive) (totalling 1,768,433 Shares);

“Category 1B Shareholders” means those 49 Shareholders between Shareholder numbered 1332 and Shareholder numbered 1380 (inclusive) holding exactly 25,000 each (totalling 1,225,000 Shares); plus

“Category 2B Shareholders” means those 151 Shareholders between Shareholder numbered 1181 holding 31,250 Shares and Shareholder numbered 1331 (holding 25,026 Shares) (inclusive) (totalling 4,345,407 Shares);

“Category 3B Shareholders” means those 68 Shareholders between Shareholder numbered 3021 (holding 273 Shares) and Shareholder numbered 3088 holding 1 Share (inclusive) (totalling 3,165 Shares);

“Category 4B Shareholders” means:

- (a) those 1,175 Shareholders between Shareholder numbered 6 (holding 1,067,479,114 Shares) and Shareholder numbered 1180 (holding 31,250 Shares) (inclusive) (totalling 1,454,393,916 Shares); plus
- (b) those 1,640 Shareholders between Shareholder numbered 1381 (holding 24,700 Shares) and Shareholder numbered 3020 (holding 298 Shares) (inclusive) (totalling 14,747,633 Shares);

“Closely related Parties” has the meaning ascribed to it in Section 9 of the Corporations Act;

“Company” and **“AZC”** means Australian Zircon NL ACN 063 389 079;

“Completion” means completion of the sale and purchase of the Sale Shares pursuant to and in accordance with the Sale and Purchase Agreement;

“Constitution” means the constitution of the Company as amended from time to time;

“Consultation Paper” means a paper issued by ASX on 12 May 2016 as supplemented from time to time;

“Corporations Act” means the Corporations Act 2001 (Cth);

“DCM” means DECOMetal GmbH in Liqi (a company registered in Austria) with its address at Grabengasse 7, 2333 Leopoldsdorf, Austria

“Director” means a director of the Company;

“ELs” means exploration licence numbers EL5446 and EL5460 owned 100% by the Company located at Horsham and Laharum, Victoria respectively;

“Existing Application” means an application by the Company to be admitted to the Official List that is made at a time when the Listing Rules that apply to it are those in force as at the date of this Explanatory Memorandum;

“Explanatory Memorandum” means this explanatory memorandum;

“Forfeited Shares” means those Partly Paid Shares in respect of which forfeiture occurs as a result of non payment of a Call pursuant to the Constitution;

“Forfeiture” means the forfeiture of a Partly Paid Share following the implementation of the Call Procedure as a result of non payment of a Call as provided for in the Constitution;

“Incentive Plan” means the plan governing the grant of the Incentives;

“Incentives” means the securities referred to in Resolutions 9, 10 and 11;

“Incoming Director” means Mr Alan Gordon Coulthard;

“Independent Expert” means RSM Corporate Australia Pty Ltd;

“Independent Expert’s Report” means the report of the Independent Expert which accompanies this Notice of Meeting;

“Key Management Personnel” has the meaning ascribed to it in Section 9 of the Corporations Act;

“Meeting” means the meeting of Shareholders convened by this Notice;

“**Notice**” and “**Notice of Meeting**” means the notice of meeting to which this Explanatory Memorandum is attached;

“**Official List**” means the Official List of ASX;

“**Option**” means an option to subscribe for a Share at an exercise price of 20 cents per Share, exercisable within 5 years of the Company having been admitted to the Official List and otherwise on terms that are consistent with the Listing Rules as are contained in the Plan;

“**Partly Paid Shares**” means the 7,363,026 partly paid shares in the capital of the Company each paid to \$0.005 each with \$0.40 uncalled;

“**Performance Right**” means an Incentive that is issued with a nil exercise price;

“**Plan**” and “**Incentive Plan**” means the plan that the Company has adopted governing the terms of issue of Incentives, Performance Rights and related matters;

“**Proposed Application**” means an application by the Company to be admitted to the Official List that is made at a time when the Listing Rules that will apply to such application are different to those in force as at the date of this Explanatory Memorandum and which reflect the term of the Consultation Paper in relation to Listing Rule 1.1 Conditions 7 and 8 and in relation to other admission criteria;

“**Purchase Price**” means AU\$30,000;

“**Purchasers**” means Messrs JD Shervington and JJ Jacobs and/or their respective nominee(s);

“**Reconstruction**” means the reconstruction of the capital of the Company as contemplated by Resolutions 1 – 5 (inclusive);

“**Related Party**” has the meaning ascribed to it in Section 228 of the Corporations Act;

“**Resolution**” means a resolution set out in this Notice and “**Resolutions**” has a corresponding meaning;

“**Sale and Purchase Agreement**” means the agreement between the Purchasers and DCM in respect of the purchase and sale of the Sale Shares;

“**Sale Shares**” means 1,067,479,114 Shares owned by DCM;

“**Section**” means a section of this Explanatory Memorandum;

“Securities” has the meaning ascribed to it in the Listing Rules and includes the Incentives;

“Share” means an ordinary fully paid share in the capital of the Company and **“Shareholder”** has a corresponding meaning;

“Transaction” means the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement;

In the Notice and in this Explanatory Memorandum, references to currency are to the currency of Australia.

In the Notice and in this Explanatory Memorandum references to the term “Shareholder numbered” is a reference to the Shareholder next to whose name such number is recorded in the register of members maintained by the Company.



AUSTRALIAN ZIRCON NL

Financial Services Guide and Independent Expert's Report

August 2016

We have concluded that the advantages of the Proposed Transaction outweigh the disadvantages

FINANCIAL SERVICE GUIDE

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 (“RSM Corporate Australia Pty Ltd” or “we” or “us” or “ours” as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“FSG”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints Resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll Free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact Details

You may contact us using the details set out at the top of our letterhead on page 1 of this report.

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26 August 2016

The Directors
Australian Zircon NL
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Adelaide SA 5000

Dear Directors

INDEPENDENT EXPERT'S REPORT ("REPORT")

1. Introduction

- 1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of General Meeting and Explanatory Statement ("Notice") to be provided to shareholders for a General Meeting of Australian Zircon NL ("AZC" or "Australian Zircon" or "the Company") to be held on or around [Date], at which shareholder approval will be sought for (among other things) the acquisition of 1,067,479,114 ordinary AZC shares owned by DECOmetal GmbH in Liqui. ("DCM") ("DCM Shares") by Messrs JD Shervington and JJ Jacobs ("Purchasers") ("Proposed Transaction").
- 1.2 As consideration for the DCM Shares, the Purchasers will pay DCM \$30,000 ("Consideration").
- 1.3 The Directors of the Company have requested that RSM Corporate Australia Pty Ltd ("RSM"), being independent and qualified for the purpose, express an opinion as to whether the advantages of the Proposed Transaction outweigh the disadvantages from the perspective of AZC shareholders not associated with the Proposed Transaction ("Non-Associated Shareholders").
- 1.4 The request for approval of the Proposed Transaction is included as Resolution 6 in the Notice. Resolution 6 is subject to the approval of Resolutions 1 to 5 inclusive and Resolution 7 ("Conditional Resolutions"), in the Notice. We have restated these interdependent resolutions at Appendix D.
- 1.5 When considering the Proposed Transaction, we have included the impact of the Conditional Resolutions because, without approving them, the Proposed Transaction cannot complete. However, we have only considered the Conditional Resolutions on the assumption they are approved in the context of the Proposed Transaction, we have not and do not provide comment on whether Non-Associated Shareholders should or should not approve the Conditional Resolutions.
- 1.6 The ultimate decision whether to approve the Proposed Transaction should be based on each Shareholder's assessment of their circumstances, including their risk profile, liquidity preference, tax position and

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expectations as to value and future market conditions. If in doubt as to the action they should take with regard to the Proposed Transaction, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

2. Summary and Conclusion

Opinion

2.1 In our opinion, and for the reasons set out in Section 8 of this Report, the advantages of the Proposed Transaction outweigh the disadvantages from the perspective of the Non-Associated Shareholders of Australian Zircon.

Approach

2.2 In assessing whether the advantages of the Proposed Transaction outweigh the disadvantages from the perspective of the non-associated shareholders, we have considered Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111 – Content of Expert Reports (“RG 111”), which provides specific guidance as to how an expert is to appraise transactions.

2.3 Where the sale of shares by a shareholder otherwise prohibited under section 606 of the Act is approved under item 7 of section 611, RG 111 states that an expert should identify the advantages and disadvantages of the transaction to shareholders not associated with the transaction.

2.4 Therefore, we have considered whether or not the advantages of the Proposed Transaction outweigh the disadvantages by comparing the advantages and disadvantages of the Proposed Transaction from the Non-Associated Shareholder’s perspective.

Advantages

2.5 The advantages of the Proposed Transaction are set out below:

- DCM will not receive a premium for control;
- The Purchasers will seek to relist the shares of Australian Zircon on the ASX which would add liquidity and value to Non-Associated Shareholders; and
- Alignment of major shareholders with Non-Associated Shareholders and will avoid potential immediately winding up of the Company.

Disadvantages

2.6 The disadvantages of the Proposed Transaction are set out below:

- There is no guarantee that Australian Zircon shares will be relisted on the ASX;
- Sourcing a new asset and preparing to relist on the ASX will reduce the current cash balance which could result in a lower return to Non-Associated Shareholders if a relisting is unsuccessful; and
- Although the vast majority (at least 99.6%) of Non-Associated Shareholders are treated equally, there is differential treatment for dilution of certain Non-Associated Shareholders as a result of the Conditional Resolutions. We note that we are not providing specific comment on the Conditional Resolutions and individual shareholders should seek advice for their specific circumstances.

3. Summary of Proposed Transaction

Overview

- 3.1 The Purchasers have agreed to acquire the 1,067,479,114 DCM Shares for US\$30,000. The DCM Shares represent approximately 73% of the issued capital of Australian Zircon.
- 3.2 The Proposed Transaction is subject to approval of the following:
- The cancellation of between 1,464,690,121 and 1,466,203,721 Australian Zircon shares;
 - A reduction of capital of between \$108,774,210 and \$108,777,210;
 - Cancellation of shares and reduction in capital of up to \$36,815 on all existing partly paid shares where, following a call for payment, payment has not been made; and
 - Change of company type from a public no liability company to a public company limited by shares.

Rationale for the Proposed Transaction

- 3.3 DCM obtained interest in Australian Zircon whilst funding mineral exploration and development assets previously owned by Australian Zircon. Australian Zircon has since disposed of its mineral assets and DCM does not have an interest in retaining its shareholding in the Company or restructuring or recapitalising the Company.
- 3.4 The Purchasers have experience in restructuring and recapitalising companies. The intention of the Purchasers is to restructure Australian Zircon so that it can be used as a vehicle to relist on the Australian Stock Exchange (“ASX”).
- 3.5 The restructure of Australian Zircon’s capital which is proposed as a condition of the Proposed Transaction is expected to result in a company with a capital structure that could better appeal to owners of assets considering an ASX listing.

Impact of Proposed Transaction on Australian Zircon’s Capital Structure

- 3.6 The table below sets out a summary of the capital structure of Australian Zircon prior to and post the Proposed Transaction before consideration of the impact of the Conditional Resolutions.

Table 1 Capital Structure of Australian Zircon pre and post the Proposed Transaction - before impact of Conditional Resolutions

Shareholder	Pre Proposed Transaction		Post Proposed Transaction*	
	Shares Held	Interest	Shares Held	Interest
DCM	1,067,479,114	72.4%	-	0.0%
Mr Shervington	1,225,480	0.1%	534,965,037	36.3%
Mr Jacobs	-	0.0%	533,739,557	36.2%
Non-Associated Shareholders	406,010,627	27.5%	406,010,627	27.5%
Total Shareholders	1,474,715,221	100.0%	1,474,715,221	100.0%

Source: Management estimates

3.7 The table below sets out a summary of the capital structure by shareholder group pre and post the Proposed Transaction and inclusive of the impact of the Conditional Resolutions.

Table 2 Share structure of Australian Zircon pre and post the Proposed Transaction

Share Certificate Number	Category	Current Shares on Issue	Cancelled Shares	New Shares on Issue	Reduction
Proposed Capital Structure Subject to Resolution 1 Being Approved					
1 to 5	n/a	n/a	n/a	n/a	n/a
6 to 1,822	1A	1,468,176,557	(1,461,192,057)	6,984,500	-99.5%
1,823 to 1,971	4A	1,768,433	(1,766,933)	1,500,000	-15.2%
1,972 to 2,122	3A	1,510,000	-	1,510,000	0.0%
2,123 to 3,024	1A	3,258,087	(3,242,587)	15,500	-99.5%
3,025 to 3,088	2A	2,144	(2,144)	-	-100.0%
Total Shareholders		1,474,715,221	(1,466,203,721)	10,010,000	-99.3%
Proposed Capital Structure Subject to Resolution 2 Being Approved					
1 to 5	n/a	n/a	n/a	n/a	n/a
6 to 1,180	4B	1,454,393,916	(1,449,444,107)	4,949,809	-99.7%
1,181 to 1,331	2B	4,345,407	(545,407)	3,800,000	-12.6%
1,332 to 1,380	1B	1,225,000	-	1,225,000	0.0%
1,381 to 3,020	4B	14,747,633	(14,697,442)	50,191	-99.7%
3,021 to 3,088	3B	3,165	(3,165)	-	-100.0%
Total Shareholders		1,474,715,121	(1,464,690,121)	10,025,000	-99.3%

Source: Company Estimates

4. Scope of the Report

Corporations Act

4.1 Section 606 of the Act prohibits a person from acquiring a relevant interest in the issued voting shares of a public company if the acquisition results in that person's voting interest in the company increasing from a starting point that is below 20% to an interest that is above 20%. Completion of the Proposed Transaction will result in the Purchasers increasing their interest in Australian Zircon as follows (before consideration of the impact of the Conditional Resolutions):

Table 3 Change in Shareholding of Purchasers

Shareholder	Pre Proposed Transaction		Post Proposed Transaction*	
	Shares Held	Interest	Shares Held	Interest
Mr Shervington*	1,225,480	0.1%	534,965,037	36.3%
Mr Jacobs	-	0.0%	533,739,557	36.2%

Source: Company estimates

* Mr Shervington also holds 900,000 partly paid shares with an uncalled portion of \$0.40 per share. These shares have proportional voting rights based on the amount paid up. If these partly paid shares were included in the calculation above on the basis they were paid up, Mr Shervington's fully diluted interest would increase by 900,000 shares but his percentage interest in Australian Zircon shares would be unchanged.

4.2 Under Item 7 of Section 611 of the Act, the prohibition contained in Section 606 does not apply if the acquisition has been approved by the Non-Associated Shareholders of the company.

4.3 Accordingly, the Company is seeking approval from the Non-Associated Shareholders for Resolution 6 under Item 7 of Section 611 of the Act.

4.4 Section 611(7) of the Act states that shareholders must be given all information that is material to the decision on how to vote at the meeting. ASIC Regulatory Guide 111 ("RG 111") advises the requirement to commission an Independent Expert's Report in such circumstances and provides guidance on the content.

Basis of Evaluation

4.5 In opining on the Proposed Transaction, we have given regard to the views expressed by the ASIC in RG 111.

4.6 RG 111.42 states that when preparing an IER on the sale of securities under Item 7 of Section 611, the expert should identify the advantages and disadvantages of the proposal to Non-Associated Shareholder and provide an opinion that either:

- The advantages of the proposal outweigh the disadvantages; or
- The disadvantages of the proposal outweigh the advantages.

4.7 In assessing whether the advantages of the Proposed Transaction outweigh the disadvantages, we have considered the following:

- Whether the vendor is receiving a premium for control;
- The extent to which further transactions are planned between the Company and DCM;
- Whether the Proposed Transaction, if approved, might deter the making of a takeover bid for the Company; and
- Any other advantages and disadvantages that Non-Associated Shareholders may be subjected to.

- 4.8 RG111.44 states that the greater the control premium provided to the vendor, the greater the advantages of the transaction to non-associated holders would need to be to support a finding that the advantages of the proposal outweigh the disadvantages.
- 4.9 When assessing the quantum of any premium for control, we are required to value Austrian Zircon's shares on a minority interest basis. More details of our valuation methodologies applied can be found in Section 0.
- 4.10 Our assessment of the Proposed Transaction is based on economic, market and other conditions prevailing at the date of this Report.

5. Profile of Australian Zircon NL

Background

- 5.1 Australian Zircon is an “unlisted shell” which means it is a public company whose shares are not traded on a public stock exchange and has no significant assets other than cash.
- 5.2 The Company was previously listed on the ASX and had focussed on developing a mineral sands project. Australian Zircon was removed from the official list of the ASX on 1 January 2016. In the first half of 2016, the Company undertook a process to dispose of its assets and eliminate its debt. It has successfully completed this process.

Directors and management

- 5.3 The directors and key management of Australian Zircon are summarised in the table below.

Table 4 Australian Zircon Directors

Name	Title	Experience
Jeremy Shervington	Non-Exec Chairman	Mr Shervington is a solicitor specialising in laws regulating companies and the securities industry in Australia. He is also a director of various unlisted public and private companies.
Johann Jacobs	Non-Exec Director	Mr Jacobs has more than 30 years’ experience in the resource sector where he has managed established companies and acquisitions, expansions or start-up mining operations in Australia, South Africa, and Indonesia.
Gerhard Kornfeld	Non-Exec Director	Dr Kornfeld is the CEO of DCM. Dr. Kornfeld has extensive experience in the industrial and manufacturing sectors, mainly in the Central and Eastern Europe region. He has a degree and PhD in Economics and has held senior positions in the Siemens Group and Mondi Group.

Source: Company

Financial Performance

- 5.4 The following table sets out a summary of the financial performance of Australian Zircon for the years’ ended 30 June 2015 and 30 June 2016 and the six days ended 6 July 2016.

Table 5 Australian Zircon Historical Financial Performance

		Period ended 06-Jul-16	Year ended 30-Jun-16	Year ended 30-Jun-15
	Ref:	Unaudited	Unaudited	Audited
Other income	5.5	58,069,456	4,645,835	8,395
Employee benefits expense		(98,083)	(305,135)	12,755
Finance expenses	5.6	32,280,939	(6,123,822)	(5,510,291)
Corporate expenses		(30,683)	(381,676)	(682,523)
Other expenses		(5,578)	(13,145)	(5,887,246)
Operating profit		90,216,050	(2,177,942)	(12,058,910)
Income tax benefit		-	-	-
Net (loss)		90,216,050	(2,177,942)	(12,058,910)

Source: Company Financials

- 5.5 Other income for the six days ended 6 July 2016 relates to the forgiveness of the loan from DCM. Income for the year ended 30 June 2016 predominantly reflects gains from the sale of the mineral assets held by Australian Zircon.
- 5.6 The positive amount included in finance expenses for the six days ended 6 July 2016 relates to the forgiveness of accrued interest on the loan from DCM.
- 5.7 The financial performance of Australian Zircon for the years' ended 30 June 2015 and 30 June 2016 relate to the Company's history as a mineral explorer and are not relevant to the current operations and financial position of the Company.

Financial Position

- 5.8 The table below sets out a summary of the financial position of Australian Zircon as at 30 June 2015, 30 June 2016 and 6 July 2016.

Figure 1 Australian Zircon Historical Financial Position

	Ref:	06-Jul-16 Unaudited	30-Jun-16 Unaudited	30-Jun-15 Audited
Current assets				
Cash and cash equivalents	5.11	171,302	382,943	99,592
Trade and other receivables		17,510	10,542	172,326
Total current assets		188,812	393,485	271,918
Non-current assets				
Property, plant and equipment		1,380	4,407	31,275
Deferred exploration and evaluation expenses	5.10	-	-	18,705,598
Total non-current assets		1,380	4,407	18,736,873
Total assets		190,192	397,892	19,008,791
Current liabilities				
Trade and other payables		7,214	82,770	246,610
Loans and borrowings	5.10	-	90,613,534	106,863,611
Provisions		-	-	13,157
Total current liabilities		7,214	90,696,304	107,123,378
Total liabilities		7,214	90,696,304	107,123,378
Net assets		182,978	(90,298,411)	(88,114,587)
Equity				
Issued capital		110,816,025	110,816,025	110,816,025
Accumulated losses		(110,633,047)	(201,114,436)	(198,930,612)
Total equity		182,978	(90,298,411)	(88,114,587)

Source: Company Financials

- 5.9 Australian Zircon had net assets of \$182,978 as at 6 July 2016. It is debt free and holds no operating assets.
- 5.10 The balance sheet reflects the recent disposal of Australian Zircon's mineral assets and the forgiveness of the debt owed to DCM.
- 5.11 The only other significant asset held by Australian Zircon is cash.

Capital Structure

- 5.12 Australian Zircon has 1,474,715,221 ordinary shares on issue. The Company also has 7,363,026 partly paid shares on issue. The partly paid shares have been paid up to \$0.05 per share with an uncalled portion of \$0.40 per share. It is unlikely that these shares will be fully paid up.

6. Valuation Approach

Valuation methodologies

- 6.1 In assessing the Fair Value of an ordinary Australian Zircon share prior to and immediately following the Proposed Transactions, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:
- the discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets;
 - the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
 - the amount which would be available for distribution on an orderly realisation of assets;
 - the quoted price for listed securities; and
 - any recent genuine offers received.
- 6.2 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows.

Market based methods

- 6.3 Market based methods estimate the Fair Value by considering the market value of a company’s securities or the market value of comparable companies. Market based methods include:
- The quoted price for listed securities; and
 - Industry specific methods.
- 6.4 The recent quoted price for listed securities method provides evidence of the fair market value of a company’s securities where they are publicly traded in an informed and liquid market.
- 6.5 Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally rules of thumb provide less persuasive evidence of the fair market value of a company than other market based valuation methods because they may not account for company specific risks and factors.

Income based methods

- 6.6 Income based methods estimate value by calculating the present value of a company’s estimated future stream of earnings or cash flows. Income based methods include:
- Capitalisation of maintainable earnings; and
 - Discounted cash flow methods.
- 6.7 The capitalisation of earnings methodology is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings (“FME”) of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.
- 6.8 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company’s cash flows at the end of the forecast

period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.

Asset based methods

- 6.9 Asset based methodologies estimate the Fair Value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:
- orderly realisation of assets method;
 - liquidation of assets method; and
 - net assets on a going concern basis.
- 6.10 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.
- 6.11 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame.
- 6.12 The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

Selection of Valuation Methodologies

- 6.13 In assessing the value of an Australian Zircon share prior to the Proposed Transaction we have utilised net assets on a going concern. We have selected this methodology because Australian Zircon is an unlisted shell with the only significant asset being cash. The value of cash is easily measured at book value.
- 6.14 We have not utilised any other valuation methodology because there are no other methodologies that are appropriate for valuing an unlisted shell.

7. Valuation of Australian Zircon

- 7.1 As stated at paragraph 6.13 we have assessed the value of an Australian Zircon share on a net assets on a going concern basis.
- 7.2 We have assessed the value of an Australian Zircon share to be between approximately \$0.00012 and \$0.00046 per share (undiluted), as summarised in the table below.

Table 6 Assessed fair value of an Australian Zircon Share

	Ref	6-Jul-16	Low	High
		\$	\$	\$
Cash		171,302	171,302	171,302
Other assets and liabilities		11,676	11,676	11,676
Shell value		-	-	500,000
Net assets		182,978	182,978	682,978
Actual number of Shares on issue			1,474,715,221	1,474,715,221
Value per share (undiluted)			0.00012	0.00046

- 7.3 Our assessment has been based on the financial position of Australian Zircon as at 6 July 2016.
- 7.4 In order to calculate the current market value of Australian Zircon's Shares, we have not made any changes to the carrying values of assets and liabilities included in the financial statements.
- 7.5 We have included \$500,000 in our high value to reflect a value for Australian Zircon's potential to be relisted on the ASX. It is the intention of the Purchasers to pursue a relisting on the ASX and the shareholder spread of Australian Zircon has been identified as potentially adequate to mostly meet the minimum requirements for shareholder spread required by the ASX.
- 7.6 We have not included a value for the potential of Australian Zircon being listed in our low value because there is no certainty that the Company's share register will meet the minimum spread requirements of the ASX Listing Rules. In our opinion, it is only the spread of shareholders that would make Australian Zircon an attractive vehicle for pursuing a listing on the ASX. If the spread of shareholders does not meet ASX Listing Rule requirements then, in our opinion, there would be no value in Australian Zircon as a potential listed shell.
- 7.7 In considering the value of a listed shell we have reviewed recent transactions and the typical values attributed to shells by advisors. We have also considered dormant listed companies and concluded that the value of a shell is between \$0.5 million and \$1.0 million. Given the unlisted nature of Australian Zircon's securities, in our opinion, the high value of the Australian Zircon's capacity to be used a vehicle for listing on the ASX should only reflect the low value of our preferred range for listed shells.

8. Assessment of Whether the Advantages of the Proposed Transaction Outweigh the Disadvantages

8.1 This Section details our assessment of whether the advantages of the Proposed Transaction outweigh the disadvantages.

Assessment of quantum of control premium paid

8.2 In Section 7, we assessed the value of an Australian Zircon share to range between \$0.0001 and \$0.0005 per share.

8.3 The Purchasers will pay \$30,000 for DCM's 1,067,479,114 shares in Australian Zircon. This reflects a value per share of \$0.00003.

8.4 A comparison of the value of an Australian Zircon share and the Consideration is set out below:

Table 7 Assessment of quantum of control premium

	Low Value Per Share \$	High Value Per Share \$
Value of an Australian Zircon share (a)	0.00012	0.00046
Consideration (per share) (b)	0.00003	0.00003
Control premium paid (b - a)	No Control Premium	No Control Premium

Source: RSM estimates

8.5 The table above indicates that there is no control premium being paid by the Purchasers. This means that DCM is not receiving a premium for control for its shares. It also means that Non-Associated Shareholders are not missing out on a premium for control.

Future transactions between Australian Zircon and DCM

8.6 There are no intentions by Australian Zircon or DCM to participate in future transactions together. We note that DCM runs a resource focussed business and has sought to exit its investments in Australia.

Is the Proposed Transaction Likely to Deter a Takeover Bid

8.7 In our opinion, there is unlikely to be a material change in the likelihood of a takeover bid as a result of the Proposed Transaction. The intention of a bidder for a company in the position of Australian Zircon would most likely be to obtain the shareholder spread. As such, there is a very low probability, in our opinion, of a takeover bid because this would result in losing the current spread of shareholders.

Other Advantages of the Proposed Transaction

8.8 Set out below are the advantages of approving the Proposed Transaction.

Potential for an ASX listing

8.9 The Purchasers intend to pursue an ASX listing. If they are successful in relisting the shares of Australian Zircon, Non-Associated Shareholders will be exposed to a liquid market where they could dispose of their shares if they choose.

8.10 Any relisting of Australian Zircon's shares would typically be required to be undertaken at \$0.20 per share. The Conditional Resolutions have been structured on that basis. As such, based on the restructured capital of Australian Zircon (as calculated under the Conditional Resolutions), this would result in a value of the

existing shares of approximately \$2.0 million. This is a significant increase in the value of an Australian Zircon share but assumes that there is no further restructuring of capital. There is no guarantee that this assumption will be met.

Alignment of major shareholders

- 8.11 DCM has stated that it will seek to wind up the Company if the Proposed Transaction is not approved. This is likely to result in a limited return to Non-Associated Shareholders as the cost of winding up the Company is likely to reduce its cash reserves. It's possible that Non-Associated Shareholders would not receive any value for their shares if the Company was wound up.
- 8.12 This is in contrast to the possibility that the Purchasers achieve their target of relisting Australian Zircon and achieving the values noted in Paragraph 8.10. As such, the Purchasers appear to be more aligned with potentially increasing shareholder value than DCM.
- 8.13 The Purchasers are currently directors of Australian Zircon.

Other Disadvantages of the Proposed Transaction

- 8.14 Set out below are the disadvantages of approving the Proposed Transaction.

No guarantee of a return

- 8.15 There is no guarantee that the Purchasers will be successful in relisting Australian Zircon. There is significant costs involved in securing new assets and preparing a company for listing on the ASX. This is likely to result in the use of all of the cash currently held by Australian Zircon. Further, if the Purchasers are not successful in relisting Australian Zircon shares, the most likely outcome would be to subsequently wind the Company up. In such a scenario, there would be less cash available to shareholders than if the Company was wound up immediately.

Some Non-Associated Shareholders will be treated less fairly than others

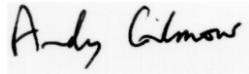
- 8.16 We have been engaged to comment on the Proposed Transaction and our opinion relates solely to Resolution 6. However, we note that the Conditional Resolutions must be approved in order for the Proposed Transaction to be approved. The Conditional Resolutions are such that some Non-Associated Shareholders will incur a greater degree of dilution, and even cancellation, than others. Although the percentage of Non-Associated Shareholders impacted is small (0.22% of shareholders will be impacted differently if Resolution 1 is approved and 0.38% of shareholders will be impacted differently if Resolution 2 is approved), this does mean that some shareholders could be adversely impacted by approving the Proposed Transaction.
- 8.17 We provide no specific comment on the Conditional Resolutions but recommend Non-Associated Shareholders obtain independent advice as to the impact of the Conditional Resolutions on their personal circumstances.

Do the advantages of the Proposed Transaction outweigh the disadvantages

- 8.18 After considering the advantages and disadvantages of the Proposed Transaction and in the absence of any other relevant information, on balance, we consider the advantages of the Proposed Transaction outweigh the disadvantages. In particular, we note that DCM is not receiving a premium for control for its shares and that the intentions of the Purchasers to relist Australian Zircon could provide potentially greater returns than if DCM continued to hold its shares and wound the Company up.
- 8.19 An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her individual circumstances. If in doubt, shareholders should consult an independent advisor.

Yours faithfully

RSM CORPORATE AUSTRALIA PTY LTD

A handwritten signature in black ink that reads "Andy Gilmore". The signature is written in a cursive style and is placed on a light grey rectangular background.

A GILMOUR

Director



APPENDICES

A. DECLARATIONS AND DISCLAIMERS

Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 “Valuation Services” issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Mr. Andrew Gilmour is a director of RSM Corporate Australia Pty Ltd. Mr Gilmour is a Chartered Accountant with extensive experience in the field of corporate valuations and the provision of independent expert’s reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of Australian Zircon NL and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Andrew Gilmour, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transaction, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately \$3,500 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether Australian Zircon NL receives Shareholder approval for the Proposed Transaction, or otherwise.

Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of Extraordinary General Meeting and Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of Extraordinary General Meeting and Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement.

B. SOURCES OF INFORMATION

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting;
- Audited financial statements for Australian Zircon for the years ended 30 June 2014 and 30 June 2015;
- Management accounts for Australian Zircon for the period ended 6 July 2016;
- ASX announcements of Australian Zircon;
- S&P Capital IQ database; and
- Discussions with Directors, Management and staff of Australian Zircon.

C. GLOSSARY OF TERMS

Term or Abbreviation	Definition
\$	Australian Dollar
Act	Corporations Act 2001 (Cth)
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
AZC or Australian Zircon	Australian Zircon NL
Company	Australian Zircon
Conditional Resolutions	Resolutions 1 to 5 and 7 included in the Notice
Consideration	\$30,000
Control basis	As assessment of the fair value on an equity interest, which assumes the holder or holders have control of entity in which the equity is held
DCF	A method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate
DCM	DECOMetal GmbH in Liqui.
DCM Shares	1,067,479,114 Australian Zircon shares held by DCM
Directors	Directors of the Company
EBIT	Earnings, Before, Interest and Tax
EBITDA	Earnings, Before, Interest, Tax, Depreciation and Amortisation
Equity	The owner's interest in property after deduction of all liabilities
EV	Enterprise Value, meaning, the total value of the equity in a business plus the value of its debt or debt-related liabilities, minus any cash or cash equivalents available to meet those liabilities
Fair Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY##	Financial year ended 30 June
IER	This Independent Expert Report
Non Associated Shareholders	Shareholders who are not a party, or associated to a party, to the Proposed Transaction
Non control basis	As assessment of the fair value on an equity interest, which assumes the holder or holders do not have control of entity in which the equity is held
Notice	The notice of meeting to vote on the Proposed Transaction
NPBT	Net Profit Before Tax
NPAT	Net Profit After Tax

Proposed Transaction	It has the meaning given to the term in paragraph 1.1 of this Report
Purchasers	Messrs JD Shervington and JJ Jacobs
Regulations	Corporations Act Regulations 2001 (Cth)
Report	This Independent Experts Report prepared by RSM dated 23 August 2016
RG 111	ASIC Regulatory Guide 111 Contents of Expert's Reports
RSM	RSM Corporate Australia Pty Ltd
S&P Capital IQ	An entity of Standard and Poors which is a third party provider of company and other financial information

D. CONDITIONAL RESOLUTIONS

1. Special Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

“That, subject to:

- (a) *the due passage of Resolutions 2 – 7 (inclusive) hereof;*
- (b) *Completion occurring under the Share Sale Agreement;*
- (c) *the Board resolving to make an Existing Application; and*
- (d) *the Forfeiture being completed;*

the share capital of the Company be reduced pursuant to Subsection 256C(2) of the Corporations Act from \$110,779,210 comprising 1,474,715,121 Shares to approximately \$2,002,000 comprising approximately 10,010,000 Shares as follows:

- (i) *The holdings of the Category 1A Shareholders (being 1,471,434,644 Shares in total) be reduced to approximately 7,000,000 Shares by cancelling 99.5242739% of the Shares held by each Category 1A Shareholder (on the basis that any fractional shareholding that would otherwise result from the cancellation is to be rounded down);*
- (ii) *The holdings of the Category 2A Shareholders (being 2,144 Shares in total) be cancelled;*
- (iii) *The holdings of the Category 3A Shareholders (being 1,510,000 Shares in total) will not be affected;*
- (iv) *The holdings of the Category 4A Shareholders (being 1,768,433 Shares in total) be reduced to 1,500,000 Shares by cancelling all Shares in excess of 10,000 Shares held by each Category 4A Shareholder (being 268,433 Shares in total);*

by cancelling approximately \$108,777,210 of paid up capital that is lost, with effect from the time that the Board makes the reduction which will be not earlier than the expiry of 14 days from the lodgement of a copy of this Resolution with the Australian Securities & Investments Commission in accordance with Subsection 256C(3) of the Corporations Act, and otherwise on the terms and conditions described in the Explanatory Memorandum attached to and forming part of this Notice and that any applicable provisions of the Company’s Constitution be amended accordingly.”

2. Special Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

“That, subject to:

- (a) *the due passage of Resolutions 1 and 3 – 7 (inclusive) hereof;*
- (b) *Completion occurring under the Share Sale Agreement;*
- (c) *the Board resolving to make a Proposed Application; and*
- (d) *the Forfeiture being completed;*

the share capital of the Company be reduced pursuant to Subsection 256C(2) of the Corporations Act from \$110,779,210 comprising 1,474,715,121 Shares to approximately \$2,005,000 comprising approximately 10,025,000 Shares as follows:

- (i) *The holdings of the Category 1B Shareholders (being 1,225,000 Shares in total) will not be affected;*
- (ii) *The holdings of the Category 2B Shareholders (being 4,345,407 Shares in total) be reduced to 3,800,000 Shares by cancelling all shares in excess of 25,000 held by each such Category 2B Shareholder (being 545,407 in total);*
- (iii) *The holdings of the Category 3B Shareholders (being 3,165 Shares in total) will be cancelled;*

- (iv) *The holdings of the Category 4B Shareholders (being 1,469,141,549 Shares in total) be reduced to approximately 5,000,000 Shares by cancelling 99.6596579% of each of the Shares held by each Category 4B Shareholder (on the basis that any fractional shareholding that would otherwise result from the cancellation is to be rounded down);*

by cancelling \$108,754,210 of paid up capital that is lost, with effect from the time that the Board makes the reduction which will be not earlier than the expiry of 14 days from the lodgement of a copy of this Resolution with the Australian Securities & Investments Commission in accordance with Subsection 256C(3) of the Corporations Act, and otherwise on the terms and conditions described in the Explanatory Memorandum attached to and forming part of this Notice and that any applicable provisions of the Company's Constitution be amended accordingly."

3. Special Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

"That for the purposes of Subsection 256C(2) of the Corporations Act approval be and is hereby given by those Shareholders, some or all of whose Shares are to be cancelled pursuant to Resolution 1, to the reduction of capital contemplated by Resolution 1 hereof."

4. Special Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

"That for the purposes of Subsection 256C(2) of the Corporations Act approval be and is hereby given by those Shareholders, some or all of whose Shares are to be cancelled pursuant to Resolution 2, to the reduction of capital contemplated by Resolution 2 hereof."

5. Ordinary Resolution – Cancellation of Forfeited Shares

To consider, and if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

"That pursuant to Section 258D of the Corporations Act the existing share capital of the Company be reduced by up to the amount of \$36,815 by cancelling the Forfeited Shares on the basis of a reduction of \$0.005 of paid up capital for each Forfeited Share."

6. Ordinary Resolution

To consider, and if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

"That, subject to the due passage of Resolutions 1 – 5 (inclusive) and Resolution 7, approval be and is hereby given for the purpose of item 7 of section 611 of the Corporations Act to the acquisition of the Sale Shares by the Purchasers on the terms and conditions in the Explanatory Memorandum."

7. Special Resolution - Change of Company Type

To consider, and if thought fit, to pass with or without amendment, the following resolution as a special resolution:

"That, subject to the due passage of Resolutions 1 - 6 hereof and subject to the Partly Paid Shares being either Forfeited or fully paid up, in accordance with section 162 of the Corporations Act and for all other purposes, approval is given to the Company for the Company to be converted from a public no liability company to a public company limited by shares, on the terms set out in the Explanatory Memorandum."

THE POWER OF BEING UNDERSTOOD
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RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU.

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AUSTRALIAN ZIRCON NL
ABN 60 063 389 079
PROXY FORM

Australian Zircon NL
 PO Box 424
 West Perth WA 6872
 Fax Number: +8 9481 5142
 Email: seppelt@bold.net.au

I/We _____
 of _____
 being a shareholder(s) of Australian Zircon NL hereby appoint _____
 of _____
 or failing him/her _____
 of _____

or failing him/her the Chairman as my/our proxy to vote for me/us and on my/our behalf at the General Meeting of the Company to be held at 11am, 13 October 2016 at 52 Ord Street, West Perth, Western Australia 6005 and at any adjournment thereof in respect of []% of my/our shares or, failing any number being specified, **ALL** of my/our shares in the Company. If two proxies are appointed, the proportion of voting rights this proxy is authorised to exercise is []%. (An additional proxy form will be supplied by the Company on request.)

If you wish to indicate how your proxy is to vote, please tick the appropriate places below. If no indication is given on a Resolution, the proxy may abstain or vote at his or her discretion.

I/we direct my/our proxy to vote as indicated below:

<u>Number</u>	<u>Resolution</u>	<u>For</u>	<u>Against</u>	<u>Abstain</u>
1	Reduction of Share Capital to approximately 10,010,000 shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Reduction of Share Capital to approximately 10,025,000 shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Approve Reduction of Shares pursuant to Resolution 1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Approve Reduction of Shares pursuant to Resolution 2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Cancellation of Forfeited Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Acquisition of Sale Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Change of Company Type	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Change of Name of Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Issue of Incentives to J Shervington	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Issue of Incentives to J Jacobs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Issue of Incentives to A Coulthard	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	Adopt New Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Proxies given by a natural person must be signed by each appointing shareholder or the shareholder's attorney duly authorised in writing. Proxies given by companies must be executed in accordance with section 127 of the Corporations Act or signed by the appointor's attorney duly authorised in writing. The Chairman intends to vote all undirected proxies in favour of each Resolution.

Please turn over for signature page.

